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ANNUAL

99th Year Ending December 31, 1961

REPORT

THE BALDWIN PIANO COMPANY



99th Year Ending December 31, 1961

THE BALDWIN PIANO COMPANY/ANNUAL REPORT

DIRECTORS

ROBERT E. FANNING
JOHN F. JORDAN
WILLIAM A. MITCHELL
JAMES M. E. MIXTER
A. J. SCHOENBERGER
EUGENE WULSIN
LUCIEN WULSIN
LUCIEN WULSIN, JR.
PHILIP WYMAN

OFFICERS

LUCIEN WULSIN *President*
PHILIP WYMAN *Vice President*
A. J. SCHOENBERGER *Vice President*
EUGENE WULSIN *Vice President*
JOHN F. JORDAN *Vice President*
JAMES M. E. MIXTER *Vice President*
LUCIEN WULSIN, Jr. *Vice President*
R. F. COGHILL *Secretary*
MORLEY P. THOMPSON *Treasurer*
L. H. ELLIS *Assistant Secretary*
IRWIN STUMBORG *Assistant Treasurer*
CHARLES G. LINDEMAN *Assistant Controller*

GENERAL OFFICES and EXPORT OFFICE Gilbert Avenue, Cincinnati

SUBSIDIARY COMPANIES The Baldwin Piano Company (Canada) Limited

A. R. & T. Electronics, Inc.

Baldwin S.A., Geneva, Switzerland

GENERAL COUNSEL Kyte, Conlan, Wulsin and Vogeler

CERTIFIED PUBLIC ACCOUNTANTS Peat, Marwick, Mitchell & Co.

DEALERS In all principal cities in the United States and throughout the world.

COMPANY-OWNED SALES OFFICES Cincinnati / Boston / Chicago / Denver / Kansas City / Los Angeles
Louisville / New York / Pittsburgh / San Francisco / St. Louis

REPORT OF THE PRESIDENT *to the Stockholders of The Baldwin Piano Company*

Sales for the year 1961 were \$33,314,000 compared with \$33,683,000 for 1960. Piano and organ sales totaled \$31,645,000, an increase of 0.7%, and sales of other than musical products totaled \$1,668,000, a decrease of 26.1%, resulting in a combined sales decrease of 1.1% as compared with the prior year.

After provision for federal income taxes, earnings for the year 1961 amounted to \$1,004,000 compared with \$1,511,000 in 1960. The balance sheet as of December 31, 1961, with comparative figures for 1960, is shown on pages 4 and 5, and statement of income and earned surplus on page 6 of this report. Your attention is also directed to the explanatory notes to these financial statements. On December 31, 1961, total current assets amounted to \$25,862,000 and total current liabilities \$6,231,000, a ratio of 4.2 to 1.

As forecast in my report to the Stockholders last year, 1961 earnings are materially reduced from those of recent previous years. During 1961 we were faced with sizeable non-recurring expenses to bring our new plant at Greenwood, Mississippi into production. Our organ sales were 6.6% less than in 1960. However, our piano sales, the largest in the Company's history, increased 6.8% over 1960. This increase in the sale of pianos was not sufficient to compensate for the reduced earnings from the organ business. Another factor that affected total earnings unfavorably was reduced volume of our subsidiary A. R. & T. Electronics, Inc.

By the second half of 1962 we should no longer be faced with heavy starting costs at Greenwood. Prospects for the organ business appear brighter than in the recent past. The interest in our products from A. R. & T. Electronics is greater than for the past several years. For these reasons we believe our earnings in 1962 should be improved.

In May of 1961 the Company announced its decision to manufacture Acrosonic and Hamilton pianos in our woodworking plant at Greenwood, Mississippi. This decision was predicated upon the economic and physical advantages of manufacturing in new plants in the South.

It has required the construction of an additional building, to be completed this year, of one hundred thousand square feet floor area at Greenwood. This will warehouse our finished merchandise and better serve our dealers and customers. Its cost is being paid by Leflore County, Mississippi, from the unexpended balance of the original bond issue, and it will be leased to us under our long term agreement with the County.

In addition to Acrosonic and Hamilton pianos, the Greenwood plant is currently producing wood parts and finished cases for our piano assembly plant in Conway, and organ cases for our organ plant in Fayetteville, Arkansas.

In the Fall of 1961 we introduced a new develop-

ment in sound amplification which greatly enhances the tone of our organs. This is called Panoramic Tone. It has been received with enthusiasm by our dealers and customers and is available in kit form for attachment to all Baldwin-built organs.

In January of this year we introduced a new spinet organ, the Orga-sonic 71. This home organ, complete with Panoramic Tone and percussion, is priced to sell to the consumer at under one thousand dollars f.o.b. factory. The initial acceptance of this organ by the buying public has been excellent.

Our Canadian subsidiary, The Baldwin Piano Company (Canada) Ltd., is proceeding satisfactorily. We have enjoyed an increase in our Canadian business during the past year.

During 1961 we have continued to develop the distribution of organs on the continent of Europe. In January, 1962, we established a wholly-owned subsidiary corporation, Baldwin S. A. in Geneva, Switzerland, for the marketing of our products in Europe.

As you are aware, the greater part of our output from A. R. & T. Electronics is eventually used by the military. The year 1961 saw a substantial reduction in this business. We now have undertaken the production and marketing of an additional

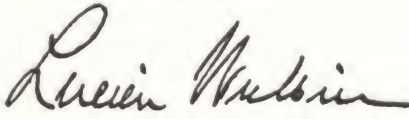
encoder at a lower cost for commercial uses. We should see an improvement in this branch of our business in 1962.

In February, 1962, we entered into an agreement with Electronics Engineering Company of California and certain scientists to establish a California corporation for the manufacture and sale of semiconductor products. This company, Siliconix Incorporated, is located in Sunnyvale, California.

For the continued healthy growth of the Company, the development of management personnel is essential. As abilities are demonstrated, positions of greater responsibility are assigned. Morley P. Thompson was elected Treasurer of the Company in April, 1961. In September, 1961, Lucien Wulsin, Jr. was elected a Director and a Vice President of the Company. The Directors have recommended to the Stockholders that, at the Annual Meeting on April 2, 1962, they increase the Board of Directors of the Company from nine to eleven.

The year 1962 starts the second 100 years of the Baldwin business. In the year 1862 in the midst of the Civil War, Dwight Hamilton Baldwin established a retail store for the sale of musical instruments at Fifth & Elm Streets in Cincinnati. This organization has continued, developed, and progressed to the state you find set forth in this report. Mr. Baldwin's example and the results of the past 100 years are a solid foundation and an inspiration upon which to build the future of the Company.

Respectfully submitted,


President

Cincinnati, April 2, 1962

CONSOLIDATED BALANCE SHEET—THE BALDWIN PIANO COMPANY

ASSETS	1961	1960
CURRENT ASSETS:		
Cash.....	\$ 1,066,036	\$ 1,379,617
Certificates of deposit.....	—	1,250,000
U.S. Government and other marketable securities at cost (approximately market value)...	—	4,756,826
Receivables (note 1):		
Installment accounts.....	\$ 8,520,112	\$ 320,592
Amounts withheld by banks on installment accounts sold.....	1,492,597	1,833,500
Miscellaneous.....	1,304,605	1,060,452
	<u>11,317,314</u>	<u>3,214,544</u>
Less reserve for losses including possible losses on installment accounts sold to banks.....	<u>1,584,942</u>	<u>1,541,779</u>
	9,732,372	1,672,765
Government contracts—billings and inventories, less progress payments received \$208,922—1960 (note 2)	475,153	661,198
Inventories (note 2):		
Finished goods.....	9,362,328	10,467,502
Work in process.....	2,650,200	2,191,625
Raw materials and manufacturing supplies..	<u>2,322,782</u>	<u>1,740,061</u>
	14,335,310	14,399,188
Prepaid expenses.....	<u>252,702</u>	<u>270,190</u>
Total current assets.....	25,861,573	24,389,784
INSURANCE DEPOSITS	173,072	149,018
PLANT AND EQUIPMENT—AT COST (note 3).....	8,810,952	8,668,532
Less allowance for depreciation.....	<u>4,719,409</u>	<u>4,282,106</u>
	<u>\$30,126,188</u>	<u>\$28,925,228</u>

See accompanying notes to financial statements.

AND SUBSIDIARIES — December 31, 1961 with Comparative Figures for 1960

LIABILITIES	1961	1960
CURRENT LIABILITIES:		
Notes payable:		
Banks.....	\$ 1,250,000	\$ —
Long-term debt—current portion.....	400,000	402,160
	<hr/> 1,650,000	<hr/> 402,160
Accounts payable, including taxes withheld and collected (\$955,079 and \$879,975).....	2,360,770	1,439,317
Accrued liabilities.....	1,658,699	2,221,156
Federal taxes on income, less U.S. tax anticipation certificates at cost, \$669,336—1960....	—	1,501,949
Deferred income, less Federal and state income tax thereon \$300,000 and \$893,100 (note 1)	376,539	784,669
Customers' deposits.....	184,657	160,301
	<hr/> 6,230,665	<hr/> 6,509,552
LONG-TERM DEBT—less current portion (note 4).....	4,800,000	5,212,240
PROVISION FOR PENSION COSTS—less current portion (note 5).....	114,475	127,927
DEFERRED FEDERAL TAXES ON INCOME (note 1).....	1,324,820	—
RESERVES APPROPRIATED FROM EARNED SURPLUS (note 6)	5,060,000	5,060,000
CAPITAL AND SURPLUS (notes 4 and 7):		
Capital stock:		
6% cumulative preferred, par value \$100 per share; authorized 2,327 shares; outstanding 1,613 shares.....	\$ 161,300	\$ 161,300
Cumulative preferred, par value \$100 per share; authorized 60,000 shares; outstanding—none.....	—	—
Common, par value \$8 per share; authorized 500,000 shares; outstanding 275,592.6 shares.....	2,204,740	2,204,740
	<hr/> 2,366,040	<hr/> 2,366,040
Excess of fair value over par value of common stock dividend.....	124,403	124,403
Capital surplus.....	130,317	130,317
Earned surplus.....	9,975,468	9,394,749
	<hr/> 12,596,228	<hr/> 12,015,509
	<hr/> <u>\$30,126,188</u>	<hr/> <u>\$28,925,228</u>

STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS

The Baldwin Piano Company and Subsidiaries

Year ended December 31, 1961 with comparative figures for 1960

INCOME:	1961	1960
Net sales.....	\$33,313,704	\$33,682,721
Other revenues	1,251,843	1,146,852
	<u>34,565,547</u>	<u>34,829,573</u>
 EXPENSES:		
Cost of sales and operating expenses (exclusive of the following).....	30,968,541	29,858,286
Taxes, other than Federal taxes on income.....	784,495	750,498
Depreciation and amortization.....	560,094	542,769
Interest.....	338,641	466,711
	<u>32,651,771</u>	<u>31,613,264</u>
 Income before Federal taxes on income.....	1,913,776	3,211,309
FEDERAL TAXES ON INCOME.....	910,000	1,700,000
 Net income for year.....	1,003,776	1,511,309
 EARNED SURPLUS AT BEGINNING OF YEAR.....	9,394,749	8,306,497
	<u>10,398,525</u>	<u>9,817,806</u>
 DEDUCT:		
Dividends declared:		
Preferred stock—\$6.00 per share.....	9,678	9,678
Common stock—\$1.50 per share.....	413,379	413,379
	<u>423,057</u>	<u>423,057</u>
 EARNED SURPLUS AT END OF YEAR.....	<u>\$ 9,975,468</u>	<u>\$ 9,394,749</u>

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

1. In 1961, the company adopted the installment method of reporting income on installment sales for Federal income tax purposes, and in connection therewith sold as of December 31, 1960, its interest in certain installment accounts including carrying charges as of that date. The income resulting from the sale of carrying charges was deferred and is being reflected as income in the company's statements over the lives of the installment contracts in the same manner as has been done in the past. Deferred Federal Taxes on Income of \$1,324,820 represent the provision for future taxes on income as a result of deferring, for tax purposes, the gross profit on uncollected installment accounts.

2. In accordance with the company's consistent policy, inventories are stated at the lower of cost (first-in, first-out) or market with the exception that the valuation of work in process includes no manufacturing overhead costs. The omission of overhead from inventories had no material effect upon net income (after taxes) for the year 1961.

3. In 1960, the company entered into an agreement providing for the leasing of a plant, from Leflore County, Mississippi, for 25 years with an option to renew the lease for 99 years in the aggregate.

The County has issued bonds in the amount of \$3,000,000 and the company has agreed to pay as rent, during the primary term, a sum equal to the principal of the bonds, plus interest and handling charges. As of December 31, 1961 approximately \$260,000 had been paid.

4. Long-term debt, exclusive of portion due within one year, is as follows:

	1961	1960
Note, 5%, due December 20, 1974 payable \$400,000 annually commencing in 1961.....	\$4,800,000	\$5,200,000
Mortgage note, 4%, due October 7, 1962, payable in equal quarterly installments of \$540.....	—	12,240
	<u>\$4,800,000</u>	<u>\$5,212,240</u>

The loan agreement pertaining to the note due December 20, 1974 contains certain restrictions on the payment of dividends on the company's common stock (other than those payable in capital stock of the company), and on the amounts which may be used for the purchase, redemption, or retirement of the company's capital stock. Approximately \$1,495,000 of the earned surplus at December 31, 1961 is free of these restrictions.

5. For certain employees who were not eligible for participa-

tion in the retirement income plans, the company maintains a plan which provides for pensions upon retirement. The company fully provided for the estimated costs in prior years. The company also maintains retirement income plans for eligible employees under agreements with a pension trustee. The potential liability for past service benefits, which is being funded over a period of approximately 25 years, amounted to \$4,600,000 as of December 31, 1961.

6. The reserves appropriated in prior years from earned surplus are to provide for abnormal inventory fluctuations, additional plant depreciation, research and development, and any other contingencies.

7. The company maintains a stock option plan for certain employees. At December 31, 1961, there were outstanding options to purchase 4,850 shares of common stock at a price equal to the market value on the date of granting.

8. The company's sales under government contracts are subject to renegotiation, any excess profits thereon are refundable to the United States Government. Management is of the opinion that refunds, if any, will not be material.

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
The Baldwin Piano Company:

We have examined the consolidated balance sheet of The Baldwin Piano Company and subsidiaries as of December 31, 1961 and the related statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earned surplus present fairly the financial position of The Baldwin Piano Company and subsidiaries at December 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Cincinnati, Ohio
March 20, 1962



Builders of Baldwin, Acrosonic, Hamilton and Howard Pianos, Baldwin and Orga-sonic Organs



THE BALDWIN PIANO COMPANY